EDUMBE LOCAL MUNICIPALITY – KZN 261

ANNUAL DRAFT REPORT BUDGET

2015/16- 2016/17

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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- All municipal buildings
- Dumbe Library and PaulPietersburg Library
- www.edumbe.gov.za

Overview of eDumbe Local Municipality

The éDumbe Municipality is situated in the north-western part of KwaZulu-Natal. It covers a geographical area of 1 947 km² and is home to a population of about 82 053. The municipal area of jurisdiction is demarcated into 8 wards which is predominantly rural in nature. Furthermore, the éDumbe Municipal area comprises of 52 settlements in total, which includes 48 dispersed rural settlements, 3 urban areas and one major town. The major town/urban centre are Paulpietersburg/ Dumbe located in relation to the national road and rail networks.

Executive Summary

The application of sound financial management principles for the compilation of eDumbe Local Municipality financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

National Treasury's MFMA Circular No. 72, 74 and 75 were used to guide the compilation of the 2015/16 MTREF.

The main challenges experienced during the compilation of the 2015/16 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The increased cost of bulk electricity (due to tariff increases from Eskom 14%), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Most of the rural settlements are small thus making service delivery costly, this effect is compounded by the aspect that only 35% of the municipality's population lives in an urban area while 65% lives in the rural hinterland of the municipality. The spatial development pattern of the municipality will have to be addressed.
- Reduction on grants allocated by National Treasury as per DORA allocation 2015 presented by the Minister of Finance, Mr Nhlanhla Nene
- Income levels in eDumbe tend to be quite low with 69% of the population earning less than R800 a month. The traditional and rural areas are the most poverty stricken.

Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved when it comes to the submission to the Mayor and treasury.

Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. Since the introduction of the Internship programme the Municipality has successfully absorbed seven (7) interns.

Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

Audit Committee

An Audit Committee has been established and is fully functional.

Internal audit unit

An internal audit unit has been outsourced and is fully functional.

Service Delivery and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2015/16 MTREF in May 2015.

Legislative framework

The 2015/2016 budget is prepared in accordance with the Local Government; Municipal Finance Management Act, 2003 and the Municipal Budget and reporting regulations issued by the Minister in terms of Section 168(1) of the Act. In terms of these regulations a multi-year budget spanning over three (3) years is prepared. It needs to be noted that the figures for 2015/2016 and 2017/2018 are indicative in terms of the medium term expenditure framework.

The budget comprise of two categories:

(a) Operational Budget

(b) Capital Budget

The focus area where éDumbe Municipality is rendering service to community includes the following:

- Electricity supply
- Solid waste removal
- Cemeteries
- Public Safety
- Roads

Linkages between the budget, the IDP and political priorities

Firstly, the budget timetable and the IDP process plan are aligned through an integrated time schedule.

Secondly, the IDP is prepared and the projects are included in the budget with each project properly reference per IDP reference number.

Moreover, the financial plan comprising the total budget, among other items, is included in the IDP.

Finally, the implementation of electricity and solid waste projects and other assigned functions through the structures Act constitutes compliance with National, Provincial and Local development goals to eradicate backlogs of the past.

Consolidated Overview of the 2015/16 MTREF

R Thousands	Adjusted Budget	Budget Year	Budget Year	Budget Year
	2014/2015	2015/2016	2016/2017	2017/2018
Total Operating Revenue	94 403 021	109 431 818	105 827 110	106 800 587
Total Operating Expenduture	92 951 071	104 801 818	100 734 110	101 198 287
Surplus/ Deficit fo the year	**1 451 950**	**4 630 000**	**5 093 000**	**5 602 300**
Capital Transfers	26 198 500	34 691 500	36 207 350	38 979 700
	27 650 450	**39 321 500**	**41 300 350**	**44 582 000**

Total operating revenue has grown by 15.92 per cent or R 15 028 797 for the 2015/16 financial year compared to the 2014/15 approved Adjustments Budget. For the two outer years, operational revenue will decrease by 3.3 per cent and increase by 1 per cent respectively. The decrease will be due to decrease on DORA allocations.

Total operating expenditure for the 2015/16 financial year has been increased by 11, 8 million. When compared to the 2014/15Adjustments Budget. The projected figures for 2016/17 to 2017/18 financial year shows an increase of R4 million in 2016/17 and less than R500 000 for 2017/18 financial year which is caused by increase on Capital projects.

The capital budget of eDumbe Local Municipality has increased by R11, 6 million which shows a great improvement from the municipality in terms of investing more on infrastructure. The Capital budget for 2014/15 was R27, 6 million after adjustment budget and the draft budget for 2015/16 shows an amount of R39, 2 million to be spent on Capital projects.

The allocation of expenditure per department is as follows:

Department	Amount	Percentage
Executive and Council	17 102 009	12%
Budget and Treasury	19 317 897	13%
Infrastructure Services	71 621 534	50%
Community Services	7 693 614	5%
Corporate Services and Public Safety	21 272 386	15%
Planning and Development	7 115 878	5%
	144 123 318	

Operating Revenue Framework

The expenditure required to address these challenges will inevitably always exceed available funding hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues. The municipality has a huge task to implement the revenue enhancement strategy due to the fact that the municipality has a huge backlog on infrastructure which must be addressed. Back to Basics program and the support plan will also assist the municipality in ensuring the betterment of the infrastructure.

The municipality's revenue strategy is built around the following key components:

- Efficient revenue management
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Property Rates by-law approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Municipal Property Rates regulations
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the municipality.

Operating Transfers and Grant Receipts

The National Treasury has allocated grants to the municipality through DORA which will assist on the provision of the basic services. The schedule of grants received is as follows:

	2015/16 Medium Term Revenue & Expenditure Framework		
GRANTS & SUBSIDIES	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
National Government			
Equitable Share	57 632 000	55 023 050	53 629 400
Finance Management Grant	1 800 000	1 825 000	1 900 000
Municipal Infrastructure Grant	17 570 000	18 113 000	18 926 000
Intergrated National Electrification Progr	18 000 000	19 000 000	21 000 000
Municipal Systems Infrastructure Grant	930 000	957 000	1 033 000
Public Works Intergrated Grant	1 055 000	-	-
	96 987 000	**94 918 050**	**96 488 400**
Provincial Government			
Arts and Culture Grant	1 052 000	1 036 000	1 311 000
Sportsfield Infrastructure	150 000	150 000	-
	1 202 000	**1 186 000**	**1 311 000**
Total Grants & Subsidies	**98 189 000**	**96 104 050**	**97 799 400**

Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R45 000 reduction on the market value of a property will be granted in terms of eDumbe Local Municipality's proposed draft Property Rates Policy to be implemented in 2015/2016.

The proposed property rates tariff has been increased based on the projected revenue which resulted to an increase of almost 10.3% on the tariffs implemented in 2014/15 financial year. The proposed tariffs for the property rates which will be implemented by eDumbe Local Municipality is as follow:

Property Category	Adjusted tariffs 2014/2015	Rebate	Draft Budget 2015/2016	Rebate
Residential	0.00667		0.00736	
Business	0.01689	15%	0.01840	15%
Industrial business	0.01001		0.01104	
Agricultural	0.00167		0.00184	
SPL/ State owned	0.01669		0.01840	
PSI	0.00167		0.00184	
Vacant Land	0.01735		0.01914	10%
Churches	Exempted 100%			
Municipal properties				
Communal Land				

Tariff Increases

A 6 per cent increase in the all tariffs is proposed from 1 July 2015 except the Property Rates which will be in line with the MPRA guidelines and the electricity tariffs which will be based on the NERSA guideline.

Operating Expenditure Framework

The eDumbe Local Municipalityexpenditure framework for the 2015/16 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plansno budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2015/16 budget and MTREF (classified per main type of operating expenditure):

Expenditure By Type		2015/16 Medium Term Revenue & Expenditure Framework		
		Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Employee related costs	2	38 593	39 153	41 901
Remuneration of councillors		4 862	5 202	5 566
Debt impairment	3			
Depreciation & asset impairment	2	3 947	4 105	4 269
Finance charges		150	156	162
Bulk purchases	2	16 000	17 120	18 318
Other materials	8	3 307	4 115	4 280
Contracted services		3 600	3 744	3 894
Transfers and grants		300	312	324
Other expenditure	4, 5	34 043	23 670	24 585
Loss on disposal of PPE				
Total Expenditure		104 802	97 577	103 300

The municipality has made a provision of 6.4 per cent for the increase on the salaries of Municipal staff as per the MFMA circular No. 72.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998).The most recent proclamation in this regard has been taken into account in compiling the municipal budget. A 5% increase on the current upper limit for Councillors has been provided for on the draft budget.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases which has been approved by **NERSA** of 14 per cent for Eskom has been factored into the budget appropriations and directly inform the revenue provisions

Contracted services have been identified as a cost saving area for the Municipality. As part of the compilation of the 2015/16 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. The contracted services include the provision of the grass cutting to the municipal properties and the security services to all municipal buildings and rental of photocopying machines for all Municipal offices as per the service level agreement signed between the municipality and respective service provider. An amount of R 3 600 000 has been provided.

Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the eDumbe Local Municipality'sIndigent Policy. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement) on page 38. The municipality is currently provide the free basic electricity to rural household and the municipality pay Eskom for the provision of the free basic electricity since the license holder is Eskom.

1.1 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure:

R thousand	Program/Project description	Asset Sub-Class 3	Total Project Estimate	Project information	
				Ward location	New or renewal
Transportation and Roads	Re-gravelling of Dumbe Roads	*Roads, Pavements & Bridges*	3 200 000	2&4	New
Transportation and Roads	PaulPietersburg Roads (Kerk)	*Roads, Pavements & Bridges*	1 582 419	3	Renew
Transportation and Roads	Re-gravelling of Mahlosana Road	*Roads, Pavements & Bridges*	1 223 531	7	Renew
Transportation and Roads	Re-gravelling of Ophuzane Road	*Roads, Pavements & Bridges*	2 000 000	8	Renew
Transportation and Roads	Re-gravelling of Bilanyoni Road	*Roads, Pavements & Bridges*	2 000 000	4	Renew
Transportation and Roads	Re-gravelling of Mangosuthu Road	*Waste Management*	1 110 000	2	Renew
Local Economic Development	Vulamehlo SMME Development	*Local Economic Development*	1 000 000	1	Renew
Electrical Services	Bilanyoni High Masts	*Street Lighting*	700 000	4	New
Community facilities	KwaGamakazi Hall	*Community facility*	2 250 000	7	New
Community facilities	KwaVova Hall	*Community facility*	1 250 000	6	New
Community facilities	Rehabilitation of Taxi Rank	*Community facility*	650 000	3	Renew
Community facilities	Brech Crèche	*Community facility*	600 000	1	New
Community facilities	Madulini Crèche	*Community facility*	600 000	6	New
Environmental Management	Fencing of Tholakele Cemetery	*Cemeteries*	600 000	5	New
Electrification	Electrification	*Generation*	18 000 000	4, 5 and 6	New
Total Capital expenditure			36 765 950		

The capital budget is funded by the grants which will be transferred to the municipality by National Treasury as per DORA allocation gazette for 2015. An amount of R17, 570 million will be transferred for Municipal Infrastructure Grant while R 18 million will be transferred for electrification programs by Department of Energy. A further R4, 630 million which will be used for other Capital projects and will be funded by own generated funds by the Municipality.

Council Resolutions

It is recommended that:

1. The Mayor of eDumbe Local Municipality, acting in terms of section 16 (2) of the Municipal Finance Management Act, (Act 56 of 2003) tabled the Annual Draft Budget to a Council meeting. The council resolved to:

    1.1. Council take note of the operating and Capital budget for 2015/16

    1.2. Council take note of the draft operational and Capital budget for the outer years 2016/2017 and 2017/2018

1.3. Council take note that provision was made for a general increase of 6.40% on salaries of officials and 5% upper limits of Councillors salaries, allowances and benefits, implementation being subject to the confirmation by the SALGBC and determination of upper limits by the Minister for Provincial and Local Government respectively.

1.4. Council take note that the draft revised Integrated Development Plan was observed and taken into account in the compilation of the draft budget.

1.5. Those copies of the budget are submitted to National Treasury, DPLG, DTLGA and Provincial Treasury as per the requirements of the MFMA.

1.6. The tariff policy, credit control and debt collection policy, cash management policy, supply chain management policy and financial plan have been reviewed and no changes are considered necessary

1.7. That the tariffs be reviewed based on recommendations attached.

1.7.1. That the tabled draft budget for the year 2015/2016 & indicative figures for the 2 projected outer years be approved as set out in the following schedules:

1.7.1.1.	Table A1	Budget Summary
1.7.1.2.	Table A2	Budgeted Financial Performance (By Standard Classification
1.7.1.3.	Table A3	Budgeted Financial Performance (By Municipal Vote)
1.7.1.4.	Table A4	Budgeted Financial Performance (Revenue & Expenditure)
1.7.1.5.	Table A5	Budgeted Capital Expenditure
1.7.1.6.	Table A6	Budgeted Financial Position
1.7.1.7.	Table A7	Budgeted Cash Flows
1.7.1.8.	Table A8	Cash Backed Reserves
1.7.1.9.	Table A9	Asset Management
1.7.1.10.	Table A10	Basic Service Delivery Measurement
1.7.1.11.	SA1 – SA37 supporting schedules	

QUALITY CERTIFICATE

I, **TVMkhize**, **Municipal Manager** of **éDumbe Local Municipality**, hereby certify that the annual draft budget for 2015/2016 financial year and supporting documentation has been prepared in accordance with the Municipal Finance Management Act, and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

_____ Date: _____

Mr TV Mkhize
Municipal Manager
éDumbe Local Municipality (KZ261)